

**UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA**

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
AND RESEARCH FOUNDATION,

Plaintiff,

V.

PRICEWATERHOUSECOOPERS, LLP,

Defendant.

Civil Action No. 00-684

Judge David Stewart Cercone

**APPENDIX TO THE COMMITTEE’S RESPONSE TO PwC’S STATEMENT OF
UNDISPUTED AND MATERIAL FACTS UNDER LOCAL RULE 56.1(C)(1)**

VOLUME 9

James M. Jones (PA #81295)
 Laura E. Ellsworth (PA #39555)
 Laura A. Meaden (PA #52002)
 JONES DAY
 500 Grant Street, 31st Floor
 Pittsburgh, PA 15219

Richard B. Whitney
JONES DAY
North Point
901 Lakeside Avenue
Cleveland, OH 44114

Attorneys for Plaintiff The Official Committee
of Unsecured Creditors of AHERF

July 11, 2005

EXHIBIT 4403

EXHIBIT 377

PENGAD 800-631-6989

DEPOSITION
EXHIBIT

4403

Kirsten S. 13-04 ^{msk}

**AHERF
AUDIT UPDATE
AUGUST 22, 1997**

- I. QualMed / Greater Atlantic Deferred Revenue
- II. PFMA Contract
- III. Debt Compliance Items
 - A. Format of Letters
 - B. Covenants Satisfied by Obligated Groups
- IV. A/P Cutoff (A/P to SUD is November)
 - A. Search findings to date. (completed through July)
- V. CRA Review
 - A. Cushions / Open Items
- VI. PIP Account Status
- VII. Medicare Recapture
- VIII. Temporarily Restricted to Unrestricted Transfers
- IX. Reserves for Risk Contracts
- X. A/HG Goodwill / PP&E Transfers
 - A. Basis for transfer to Hospitals
 - B. Valuation
- XI. Draft Financial Statements

Handwritten notes:

- QualMed / Greater Atlantic Deferred Revenue:** NEW DCS
- PFMA Contract:** NEW DCS
- Debt Compliance Items:**
 - Format of Letters: Motion → same as p/ly.
 - Covenants Satisfied by Obligated Groups: SUD explanation i/c A/HG
- A/P Cutoff:** A/P to SUD is November
- CRA Review:**
 - Cushions / Open Items: A/HG \$2 mm, FANS - \$7 mm, CMI MA P to 1.90 Ann 1.75.
- PIP Account Status:** DEBIT? NO SUD.
- Medicare Recapture:** \$7 mm A/HG
- Temporarily Restricted to Unrestricted Transfers:** \$7.5 mm, \$2.5 mm, \$7.5 mm
- Reserves for Risk Contracts:** PYRAMID, USIR.
- A/HG Goodwill / PP&E Transfers:**
 - Basis for transfer to Hospitals: NEED MARK S. COUSINS.
 - Valuation: NEED CMT. Policy. Fife - value. If investment value is not sufficient → US REVALUED.

- ① HSI to GUARANTEE → PROVIDES CMT sure rather 100 LOW
 → SUDS PAYMENT BUYER (THREAT IN OFFER THE '97)
 → 1 REPORTED W/ 10 YR K @ CMT OF 14 '97
 → WHY NOT POSTED BMT IN RECENTS NO. (HOW INVEST??)
 → LONG/ RESERVE TO CUSHION PAYMENT BUYER.
- ② GREATER ATLANTIC ENTERS K WITH PROBABLY FIRST.
 → DOK WITH GHS TO (PROV) + GREATER ATLANTIC TO
 SOME OTHER LOSSES
 → BACKED RESERVE @ SUD (\$7 K) = \$14 million (CMT TO H)
 → MYMAN / BOTH CHANG SAY LIMBURY IS WITH 6 HS.
 - SOME WITH NO PAYMENT.
- ③ RECAPTURE
 → \$7 mm @ A/HG/PAYERS
 → TOTAL OF THE ENTITIES IS \$50 - \$60 mm
 → \$30 - \$40 mm @ A/HG/PAYERS

Adopt Issue

6/10 1/5

Revenue

- \$50 MM ADT^L RESERVE - \$25 MM MM MARCH
\$25 MM MM APRIL
- ~~\$80~~ \$80 MM WARE HTS & CHGS BY \$50 MM RESERVE
- NEW CURRENCY IS FIVE YEAR BREAKOUT
- MINIMUM HTS IMPROVED \Rightarrow ON A PERIOD ADJUSTMENT
BY DEPARTMENT
 \Rightarrow HUMAN / PHOTON RES 60MM
PERIOD
- BND DEBT BOUND TO BND
- MISSED 1 DAY RESERVE IN PHOTON.

Proton

- CHANGED END POST TO APT OF MORE
- IMPROVED PHYSICIAN AIR MINIMUM
- RESERVE IS CASHFLOW.

Reserve

- CHANGED MASTER FOR ADT

State

- NEW REGION

Adopt

- CUMULUS & PROCESS
- SAMPLE 80-10 PROCESS WARE PHOTON.

**THE ALLEGHENY SYSTEM
ORGANIZATIONAL SUMMARY**

LARGEST SINGLE PROVIDER OF HEALTH CARE SERVICES IN PENNSYLVANIA

SYSTEM ACTIVITY MAKEUP

- *THREE TERTIARY CARE HOSPITAL FACILITIES**
- *FIVE ACUTE CARE HOSPITAL FACILITIES**
- *ONE CHILDREN'S ACUTE CARE FACILITY**
- *THREE RESEARCH CENTERS**
- *ONE MEDICAL SCHOOL**
- *ONE MANAGED CARE ORGANIZATION AND NUMEROUS FACULTY PRACTICE PLANS**

VITAL STATISTICS

- *2600 LICENSED BEDS**
- *1350 FACULTY MEMBERS**
- *3200 MEDICAL STUDENTS**
- *TOTAL ASSETS APPROXIMATE \$1.7 BILLION**
- *NET EQUITY APPROXIMATE \$750 MILLION**
- *NET EARNINGS FOR 1995 APPROXIMATE \$30 MILLION**

**THE ALLEGHENY SYSTEM
GROWTH**

ORGANIZATIONAL GROWTH UNDER CURRENT MANAGEMENT TEAM

*1986	\$335 MILLION IN ASSETS PITTSBURGH BASED TERTIARY CARE HOSPITAL WITH MINOR RESEARCH CENTER
*1987	ACQUISITION OF MCP
*1991	ACQUISITION OF UNITED HOSPITALS
*1994	ACQUISITION OF HAHNEMANN UNIVERSITY
*1996	\$1.7 BILLION IN ASSETS

**THE ALLEGHENY SYSTEM
CORPORATE CULTURE**

SYSTEM IS A LARGE ORGANIZATION SERVING SEVERAL MASTERS

**CORPORATE DIRECTION/STRATEGY DEVELOPMENT IS CONTROLLED BY A
GROUP OF 10 TO 15 PROFESSIONALS WITH "BUY INS" OBTAINED BY KEY
CONSTITUENTS**

BASED UPON THE ABOVE THE CULTURE CAN BE DESCRIBED AS

- *POLITICAL**
- *DEMANDING**
- *PROFESSIONAL**
- *KNOWLEDGEABLE**

**AN OUTSIDE CONSULTANT MUST QUICKLY IDENTIFY THE CORPORATE
FORCES AT WORK FOR A PROJECT AND ESTABLISH CLEAR EXPECTATIONS
OF WHAT CAN BE DELIVERED, WHEN, WHERE AND HOW**

MUST AVOID BECOMING A " WARM BODY"

**THE ABOVE ENVIRONMENT LEADS TO THE CREATION OF "PEOPLE
RELATIONSHIPS"——NOT ORGANIZATIONAL RELATIONSHIPS. CLEARLY
THIS CREATES A RISK IN MANAGING AND GROWING THIS ACCOUNT**

**THE ALLEGHENY SYSTEM
PERFORMANCE**

**THE ALLEGHENY CORPORATE NAME CREATES OPPORTUNITY TO ATTRACT
TALENT IN ALL AREAS OF OPERATION**

- *ADMINISTRATIVE**
- *MEDICAL STAFF**
- *BOARD OF TRUSTEES**

**STRONG FINANCIAL GROWTH AND ABILITY TO CAPITAL MARKETS MAKES
THE ORGANIZATION ATTRACTIVE TO THE INVESTMENT COMMUNITY**

- *INVESTMENT BANKERS FOR CAPITAL FORMATION**
- *OTHER ORGANIZATIONS FOR POTENTIAL AFFILIATIONS**
- *JOINT VENTURE PARTNERS FOR RESEARCH OR OPERATIONAL PROFIT
MOTIVATED INVESTMENTS**

THE ORGANIZATION HAS CAPITALIZED ON PAST SUCCESSES

- *ABILITY TO REACT AND MANAGE DRG TRANSITION**
- *COST SAVINGS RELATED TO MEDICAL SCHOOL AFFILIATION**
- *SYSTEM DEVELOPMENT**

FUTURE PLANS INCLUDE EMPHASIS IN THE FOLLOWING AREAS

- *REDUCED EMPHASIS IN BEDS GROWTH**
- *DEVELOPMENT OF PHYSICIAN NETWORK**
- *DEVELOPMENT OF MANAGED CARE/RISK MANAGEMENT PROGRAM**
- *CLINICAL AND BASIC SCIENCE RESEARCH GROWTH**

**THE ALLEGHENY SYSTEM
ALLEGHENY 2001**

**PHYSICIAN CARE NETWORK IN PLACE TO PROVIDE MEDICAL SERVICES
OUTSIDE OF THE HOSPITAL SETTING**

**MANAGED CARE NETWORK IN PLACE WITH ALLEGHENY AT "RISK" FOR
CERTAIN CONTRACTS AS AN INSURER AND FOR OTHER CONTRACTS AS A
PROVIDER**

**HOSPITAL OPERATIONS AT 90% CAPACITY WITH LOW COST FOR
ADMISSIONS RELATED TO ACUTE CARE FACILITIES WHICH SERVE THE
NETWORK AND LOW COST/ HIGH VOLUME ACTIVITY IN THE TERTIARY
CARE FACILITIES**

OPERATION OF ONE OF THE LARGEST MEDICAL SCHOOLS IN THE COUNTRY

**OPERATION OF A RESEARCH CENTER WHICH MANAGES \$250 MILLION
ANNUALLY**

**THE ALLEGHENY SYSTEM
BUSINESS ISSUES**

**OPERATING EFFICIENCY/ BEING THE LOW COST PROVIDER TO MATCH
MANAGED CARE DEMANDS**

ASSET ALLOCATION AND DEPLOYMENT

- *RESEARCH FUNDING DEMANDS**
- *INSURANCE RESERVES DEMANDS**
- *REGULATORY REQUIREMENTS AND BILLING CONSTRAINTS**
- *CONTINUED FUNDING OF MEDICAL SCHOOL OPERATIONS TO FEED
NETWORK AND AVOID THE COST OF "HOUSE DOCTORS"**

NEW TALENT MUST BE ATTRACTED TO ADMINISTER THE NETWORK

**TECHNOLOGY COSTS WILL INCREASE AS NEW INFORMATION NEEDS ARE
CREATED**

**BUSINESS STRATEGY/TACTICAL PLANS MUST BE FINALIZED OR ADJUSTED
TO ADDRESS NEEDS OR DESIRES OF NEW CONSTITUENT GROUPS**

**THE ALLEGHENY SYSTEM
THREATS AND COMPETITION**

A. THREATS TO C&L / ALLEGHENY RELATIONSHIP

1. **Little depth and breath of relationships with prospective buyers (i.e operations)**
2. **Continual fee pressures on audits**
3. **Audit Committee's "perceived independence issue"**
 - **Desire to minimize concern by capping consulting fees**
4. **Lack of awareness within AHERF of C&L expertise and services**
5. **No hesitation on AHERF's behalf to utilize other consulting firms, including Big Six firms.**
 - **AHERF hires people, not firms**
6. **Highly political environment**
7. **Past C&L delivery of additional services has been questionable**

B. COMPETITION

1. **Peat Marwick**
 - a. **Doing strategic planning for research in DV (buyer; the Dean)**
 - b. **C&L not asked to bid on work**
2. **Deloitte & Touche**
 - a. **Doing charge master analysis (buyer; Greg Snow)**
 - b. **Engagement team is comprised of former C&L - Detroit HCSD members.**
3. **Boutique firms (including First Health located in Cleveland)**
 - a. **Doing valuation work for AIHG**
 - b. **No hesitation by management to utilize small niche firms, name is irrelevant to AHERF.**
4. **Hewitt & Associates**
 - a. **Essentially exclusive benefit consultant up to this point.**
 - b. **Name is affiliated with all benefit plans offered which are now being found to have significant compliance issues**
5. **Tillinghast**
 - a. **Actuarial services for malpractice insurance**

**THE ALLEGHENY SYSTEM
THREATS, COMPETITION, OPPORTUNITIES**

C. CURRENT ACTIVITIES - THE LAST YEAR

1. Estimated 1996 recurring audit hours approximate 10,000 hours
2. Coding analysis and billing compliance analysis (\$150,000; Jan Moh)
3. Investigate non-approved FDA products (\$25,000)
4. Workers Compensation review (\$150,000; Phil Camp)
5. Managed care / physician billing - billing profile review (\$80,000; Phil Camp)
6. Benefit plans compliance review (\$25,000; Blair)
7. Computer security strategy (\$50,000)
8. Ongoing tax consulting (Blair)
9. Assessment of fixed assets for research facility in Phila - phase 1 (\$25,000)
10. Compensation study at Hahnemann [CONFIDENTIAL] (\$150,000)
11. Total engagement hours for the past four years follow:

1995	14,600 hours
1994	11,500 hours
1993	11,000 hours
1992	12,300 hours

THE ALLEGHENY SYSTEM ACTION PLAN

CONCEPTUAL FRAMEWORK

- Maintain existing base of work in light of limited AHERF consulting budgets.
- Identify all possible areas of service opportunities considering AHERF's strategy.
- Select 2 new "food chains" to pursue aggressively in 1996.
- Attack 2 food chains with full service team.(The goal is to develop one additional food chain.)
- Develop stronger ties to selective members of the audit committee.

GOALS AND HIGHLIGHTS TO PROTECT EXISTING BASE

- Currently provide all audit services to AHERF entities
- Must continue current relationships, particularly with Abdelhak and McConnell
 - Need to expand breadth of relationships within operational organizations to take pressure off of McConnell for providing services to C&L
 - Focus on Morrison, Kasperbauer, Calvert, Ross, Snow, and Kaye
- Appear to be current vendor of choice for various coding and regulatory projects such as billing improvements, benchmarking, etc.
 - Buettner and Moh have made significant inroads into this area; delivery team must continue to support this avenue as there are many regulatory issues coming down the road that present significant opportunities

POTENTIAL SERVICE AREAS

- Physician Acquisitions
- Managed Care Implementation
- Research
- Technology Issues
- Human Resources
- Regulatory Issues

AREAS OF PRIMARY FOCUS

- Managed Care Implementation
- Human Resources
- **IT SHOULD BE NOTED THAT WE WILL ALSO TARGET RESEARCH WITH A SEPARATE MONITORING GAME PLAN TO BE DEVELOPED JOINTLY WITH BOB FORESTER**

ALLEGHENY SYSTEM ACTION PLAN**• HUMAN RESOURCES**

Action	Possible Initiatives	Responsible Person
Continuation of 403(b) compliance review	<ul style="list-style-type: none"> • Report results to committee consisting of AHERF executives showing ramifications of violations or exceptions on the plans. • Pursue compliance review for ALL other benefit plans, including DB, exec. comp, health & welfare plans, etc. 	Blair, Mitra
Seek outsourcing of benefit record keeping function	<ul style="list-style-type: none"> • Evidence to management the benefits of outsourcing (improved compliance @ less cost) after communicating the extent of findings in the 403(b) review. 	Blair, Mitra
Compensation Consulting	<ul style="list-style-type: none"> • Pursue consulting project on compensation issues facing AHERF, particularly in the area of faculty compensation as they are integrated with the practice plans. 	Buettner, Blair, Mitra
Technology Enhancements	<ul style="list-style-type: none"> • Pursue engagement whereby "in-control" type of review would be completed on software used to manage benefits. (Current perception is that system is relatively weak) • Consult on improving systems to enhanced software packages. 	Carver, Mitra

ALLEGHENY SYSTEM ACTION PLAN**• MANAGED CARE IMPLEMENTATION**

Action	Possible Initiatives	Responsible Person
Introduce C&L experts to AHERF management who specialize in managed care implementation in systems similar to AHERF's	<ul style="list-style-type: none"> • Introduce Phil Kamp to AHERF management (process has begun with introduction to Chuck Morrison) • Pursue project to establish fee schedule in Delaware Valley related to physician practice plans that will benefit AHERF in a managed care environment and the physicians, while remaining competitive. 	Buettner, Kamp
Obtain consult engagement revolving around negotiating and managing a full risk bearing contract	<ul style="list-style-type: none"> • Begin with Workers Compensation contract that was recently attained by AGH, with C&L's assistance, and show value that we can bring on this single contract. • Expand breadth of consults on new risk contracts after success is demonstrated on Workers Comp contract. • AHERF strategy is to essentially be an insurer, thus this information is vital. 	Buettner, Kamp

ALLEGHENY SYSTEM ACTION PLAN

Action	Possible Initiatives	Responsible Person
Pursue actuarial work required in risk environment	<ul style="list-style-type: none"> Actuarial analysis is needed to negotiate contracts as lives and outcomes become more important. In addition, as AHERF becomes more of an insurer versus a health care provider, actuarial analysis will be required by regulatory bodies. 	Buettner, ??
Assist in technology needs under Managed Care environment	<ul style="list-style-type: none"> Use of technology in the delivery of health care assists in cost cutting that is required in managed care environments. Seek consult engagements related to using technology to enhance service delivery to patients. In addition, in this environment, information is key, especially related to covered lives and outcomes. Seek consult on information technology needs and strategy. 	Buettner,

ALLEGHENY SYSTEM ACTION PLAN**• IMPROVE RELATIONSHIPS**

Actions	Possible Initiatives	Responsible Person
Expand relationships with other top level executives	<ul style="list-style-type: none"> Develop C&L network of "executive" responsibility 	Buettner, Blair, Conti
Develop plan to identify and enhance relationships with "mover & shakers" on the Audit Committee	<ul style="list-style-type: none"> Convince management that Audit Committee members should be surveyed to open up communications. Track other activities of committee members to gain visibility and develop a relationship outside of AHERF. 	Buettner, Blair, Conti

C&L's AHERF SERVICE NETWORK

Pittsburgh Team

Business Assurance	William Buettner, Mark Kirstein
HRAG	Joy Mitra, Larry Blair
CAS	Tom Carver, Sue Kenney
Tax	Larry Blair, John Woodhull
HCSD	Andy Ward

Pennsylvania Cluster/National Support

HCSD	Mike Maher (Philadelphia) - Regulatory/Reimbursement Issues; Transactions
HRAG	Phil Kamp (Chicago) - Managed Care Contracting, Product Development
BA/CLC	Scott Latimer (Philadelphia)- Strategic Planning/Managed Care
FAS	Steve Elek (Philadelphia) - Mergers & Acquisitions
FAS	Paul Barnes, Gary Roland (Philadelphia) - Physician Practice Valuations

Specialty Support

CLC	Bill Higgins (Philadelphia) - medical staff integration
CLC	Cindy Frye (Philadelphia) - physician practice management

CLC	Dave Peterson (Chicago) - managed care information systems
CLC	Martha Robbins (Philadelphia) - clinical laboratory operations
CLC	Marty Holtzman (Philadelphia) - materials management reduction
HRA	Peter Konigsberg(Washington D.C.) - Physician Incentive Compensation
CLC	Janet Scheuerman(Chicago)- Strategic Planning
CLC	Fran Pennell(New York) - Faculty Practice Plans

Account Plan: Step 1a- Sizing the wallet**Client Buying Center****LOB**

	<u>CFO</u>	<u>Legal</u>	<u>HR</u>	<u>Acad/Res. Dean</u>	<u>Hospital CEOs</u>	<u>MIS</u>	<u>Managed Care</u>
BA	\$700	Complete \$450 workshop					
Tax	\$100	Complete \$100 workshop		Complete prior to workshop			
CLC				\$1,000	\$3,000	\$2,000	
FAS	\$500	\$450			\$100		
HRA			\$1,800				\$500

\$1,300 \$1,000 \$1,800 \$1,000 \$3,100 \$2,000 \$500 \$11M

Determine the total amount spent in FY '94 for professional
services by client Buying Center and LOB

Account Plan: Step 2- Developing the Competitive Map**Client Buying Center**

LOB

	<u>CFO</u>	<u>Legal</u>	<u>HR</u>	<u>Acad/Res. Dean</u>	<u>Hospital CEOs</u>	<u>MIS</u>	<u>Managed Care</u>
BA	C&L	C&L, Law Firms		Peat			
Tax	C&L	Law Firms					
CLC				Boutique Firms	Boutique Firms	Boutique Firms, IBM	
FAS	C&L, Invest. Bankers	Law Firms					
HRA			Hewitt, Benesoft, Fidelity				Boutique Firms

Determine who the leading service provider is in each cell
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AHERF
CLIENT SERVICE PLAN

NAME	POSITION	STRENGTH OF RELATIONSHIP 1=GOOD, 5=BAD	C&L CONTACT	COMMENTS / RISKS
ABDELHAK, SHERIF	PRESIDENT & CEO	2	Buettner/Conti	DIFFICULT TO MANAGE / NO LOYALTY
WYNSTRA, NANCY	General Counsel	3	Blair/Buettner	NO LOYALTY / NOT A FRIEND OF FIRM
McCONNELL, DAVID	AHERF - CFO	1	Buettner/Blair	GOOD FRIEND / IF LEFT AHERF, COULD BE PROBLEMS
DIONISIO, JOE	AHERF - CIO / AGH - CE	2.5	Kenney/Carver	DIFFICULT TO MANAGE / NOT NECESSARILY A FRIEND
MORRISON, CHUCK	MCPHUHS	3	Buettner/Kirstein	NO FRIEND / DISLIKES PHILADELPHIA OFFICE
SPARGO, STEVE	AHERF - EVP - Finance	1	Blair/Kirstein	GOOD FRIEND OF FIRM / TRIES TO UTILIZE WHEN POSSIBLE
SNYDER III, WILLIAM	Chairman - AHERF		TBD	
BARNES, DAVID	Chairman - AIHG		TBD	
CALVERT, CAROL	President - AIHG	2	Kamp/Blair	C&L MUST INCREASE VISIBILITY / FUTURE OF MGD CARE
MCNAIR, ROBERT Jr.	AIHG	2	Blair	EDUCATED BUYER
ADAMCZAK, AL	Sr. Director - AGH/ AHERF	2	Kirstein	
SANZO, TONY	President - AGH	2	Buettner	MUST INCREASE VISIBILITY

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AHERF
CLIENT SERVICE PLAN

NAME	POSITION	STRENGTH OF RELATIONSHIP 1=GOOD, 5=BAD	C&L CONTACT	COMMENTS / RISKS
THOMAS, BRUCE			TBD	
HERNANDEZ,			TBD	
McMASTER, JAMES M.D.	ASRI	2	Buettner	DISLIKES PHILADELPHIA OFFICE / DISLIKES ACCOUNTANTS
KAYE, DONALD M.D.	MCPHUHS - President	2	TBD	FORMER C&L EMPLOYEE / NEUTRAL
BLAND, CALVIN	SCHC	2	TBD	STRONG DISLIKE FOR ACCOUNTANTS / TOUGH TO MANAGE
ROSS, LEONARD Ph. D.	MCPHU	3	Kamp/Buettner	FRIEND OF FIRM / LEFT C&L IN 1994
DAN CANCELMI	Sr. Director - Del Valley	1	Kirstein	NEW AT AHERF/ BEGUN TO INTRODUCE GREG TO C&L
SNOW, GREG		2	TBD	C&L IS NOT HIS VENDOR OF CHOICE / VERY UNORGANIZED
KASPERBAUER, DWIGHT	HR	3	Mitra/Blair	SHE IS NOT IMPRESSED WITH C&L FROM PAST
MARCELYN, ROSE	HR		Mitra/Blair	SHE IS NOT IMPRESSED WITH C&L FROM PAST
CUSTRA, MARCIE	HR		Mitra/Blair	FRIEND OF FIRM / TRYING TO IDENTIFY POSITION AT AHERF
KIRSCH, SUE	DIRECTOR OF TAX	1	Blair/Woodhull	FOLLOWS McCONNELL LEAD / CAN BE TOUGH
SCHRECONGOST, DIANE	DIRECTOR OF I/A	2	Buettner/Moh	FOLLOWS LEAD OF STEVE SPARGO
SCHARF, JOE	DR. - REIMBURSEMENT	2	Kirstein/Girol	VERY DIFFICULT / STRONG DISLIKE FOR C&L FROM PAST
CATTIE, JOAN	SR. DR. - MCPHU	3	TBD/Kirstein	UNKNOWN / NEW TO AHERF
KOWALSKI, CHRIS	CIO	-	Kenney/Carver	

OBSERVATIONS TO CONSIDER AS WE PROCEED:

- 1) AHERF HIRES PEOPLE - NOT FIRMS!!
- 2) RELATIONSHIPS ARE THIN - BOTH IN NUMBER AND STRENGTH
- 3) C&L PEOPLE WITH CONTACTS ARE TOO CENTRALIZED (PITTSBURGH)

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AHERF CSA MEETING
May 28, 1997

I. Summary of AHERF's Strategic Mission, Objectives & Core Competencies

II. Earned Services for Past 2 Years (May 1 - April 30 Results)

<u>1997</u>	<u>Hours</u>	<u>Earned Srvc</u>	<u>RPH</u>
Total Engagement	10,906	1,048,729	91.58
AAR	8,642	670,190	77.55
AAN (1)	1,087	128,036	117.84
Other (2)	1,177	200,503	170.35
Other (3)	-	50,000	-

(1) \$50,000 is AR Review @ AGH; \$23,000 from DV Refinancing & bond offering and the remainder is principally HCRG coding review and other HCRG projects (\$50,000)

(2) Other comprised principally of SDN Due Diligence @ \$186/hr (\$165,000) & TN work @ \$124/hr (\$36,000)

(3) MAS services provided to Philly hospitals.

<u>1996</u>	<u>Hours</u>	<u>Earned Srvc</u>	<u>RPH</u>
Total Engagement	13,089	1,049,011	80.14
AAR	9,748	657,292	67.43
AAN (1)	2,171	198,328	91.33
Other (2)	1,170	193,391	165.29

(1) \$145,000 relates to HCRG projects, principally compliance reviews & coding projects; \$15,000 from bond work; \$18,000 for CAS security review & \$25,000 for assistance in congressional testimony

(2) \$185,000 represents assistance with City of Pgh workers compensation proposal

III. Organization Update

- A. Recent acquisitions include the Graduate Health System, Allegheny Valley Hospital and Forbes Health system. In addition, acquisition of physicians of the former Penn Group Medical Associates.**
- B. 1996 Financial Results**
 - 1. Total Assets = \$1.9 billion
 - 2. Total Equity = \$770 million
 - 3. Net loss - \$12 million
- C. Physician network continues to expand. Mainly in Pgh.**
- D. Considering consolidating all hospitals in Philly under one name and operating with separate divisions**
- E. Key business issues are similar to last year. Network integration continues as primary focus along with risk contracting.**

IV. Recent Projects / Proposals (other than audit)

- A. Due Diligence /Acquisitions (SDN, Forbes & AVH affiliations - Utilized FAS and BA to complete engagements. Billings approx. \$165,000)**
- B. A/R / Business Office Review (Pittsburgh) - Engaged by Joe Dionisio to review AGH processes. \$50,000 total fees.**
- C. MA Coding Reviews - Ongoing projects at St. Chris & AGH. Scheduled to be completed in near future. Currently coordinating with management on completion dates & access to records. (Add'l fees approximating \$30,000)**
- D. Debt / Lease Consulting - Finalizing GE Capital lease deal week of May 26th. \$65 million power plant lease scheduled for Fall '97. Significant leasing transactions being contemplated re: information systems & other equipment.**
- E. Bolno Project - \$10,000 reperformance of internal audit workpapers related to alleged inappropriate billing by physician.**
- F. Private Inurement / Physician Acquisition Proposal (not accepted) - Proposal submitted (approx. \$40,000) to AIHG related to review of controls over physician acquisitions. Hired boutique firm to complete work.**
- G. Workers Compensation (lost to Tillinghast) - Previously performed workers compensation analysis out of Philly (Mark Proska). AHERF opted to utilize one firm and has selected Tillinghast. (Est Tillinghast fees approximate \$50,000)**

- H. Property & Equipment Inventories (George Sees - MAS) - To date, completed inventory at Queen Lane. Hahnemann scheduled in near future. Potential opportunity for entire system, however, due to costs, AHERF may phase in or elect to defer certain entities.**
- I. For Profit Tax Services - Charlie Gross & Missy Battle have provided various consulting services to Sue Kirsch. Total billings to date approximate \$36,000.**
- J. Proposal to implement Phone System - Tom Carver. Still in negotiations. Outlook is not good at present due to pricing.**

V. AHERF's Future Needs (Potential Services)

- A. Network Formation Consultation - Network continues to grow and has not become profitable to date. Beginning to form MSO, management will have to improve and be integrated into contracting for this to be successful.**
- B. Managed Care Contracting Support - HealthAmerica contract is first large scale risk contract. To date, systems are not structured appropriately to provide needed information. Difficult at present to even gather number of covered lives.**
- C. Information Systems - In general upgrades will be required to support organization. Particularly in managed care contracting and patient care areas. Managed care will require significant amounts of information to be available to provide information to manage contracts. From a patient care perspective, they are beginning to explore the central patient file and electronic medical record concept and will need substantial funds to grow this area.**
- D. Corporate Compliance Reviews and Program Implementation - IL 372 audit will be completed some time in 1997. In general, no program in place in organization. Most likely, issues exist in all areas of focus such as DRG upcoding, lab, home health, transfer vs. discharge.**
- E. Research Accounting (CAS Standards) - Very significant undertaking to comply. Wants to grow to top 50 research institute with \$200+ million in funds.**

VI. Competition

- A. Peat Marwick (Research Accounting)**
- B. Tillinghast & Hewitt (HRA)**
- C. Deloitte & Touche (Revenue Projects / CDM)**
- D. Boutiques (Private Inurement / Physician Acquisitions)**

VII. Action Plan Update

Action Step	Responsible Parties	Possible Initiatives	Status Update
Obtain AHERF Core Competencies	Buettner	See section IV regarding Potential Future Needs	Complete by June 30
Develop Plan to introduce C&L Capabilities & Services to AHERF management (McConnell) (Threat #4)	Buettner, Shively	<ul style="list-style-type: none"> Need to educate AHERF on the depth and breadth of services that C&L has to offer McConnell has agreed to meet with Bill and assist us in being a spokesperson to the organization Introduce Robert McDonald (industry chairman) to AHERF senior management 	Complete by August 15
After introducing services to McConnell, coordinate with McConnell introductions to organization CEO's. McConnell acts as reinforcement for discussions (1) ; (4)	Buettner, Shively, Blair	<ul style="list-style-type: none"> Need to introduce our specialists to the "buyers" or CEO's of the organization. At present, many CEO's do not view C&L as consultant of first choice. 	Complete by October 31
Continue involvement in Excellence in Medical Education Program (1) ; (4)	Buettner, Shively	Maintain visibility for the firm through financial support and personnel support	

Action Step	Responsible Parties	Possible Initiatives	Status Update
Enhance visibility of HCRG leadership (1) ; (4)	Buettner, Finerty, Sheidy, Sarra	<ul style="list-style-type: none"> •Network formation and issues around managing the network •Risk contracts such as Health America •Corporate compliance program. Pending IL 372 audit. 	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>
Obtain and analyze client survey results to ascertain perceived weaknesses (7)	Buettner, Blair, Kirstein	MSO Development	Ongoing
Capitalize on McConnell's strong dislike for D&T and target Ohio Valley System (5)	Buettner, Hoover, Sheidy, Kirstein		Complete by October 31
Utilize personnel assessments to enhance relationships with key individuals (1)	All		Complete by March 31, 1998
			Ongoing

Action Step	Responsible Parties	Possible Initiatives	Status Update
Prior CSA Action Plan Steps			
Human Resources (1) ; (4) 403 (b) Compliance			Completed. Currently in discussions with IRS.
Outsourcing of Record Keeping			Hewitt has stronghold. No opportunity.
Compensation Consulting			Completed various audits of Execuflex program
Technology Enhancements			No opportunity. Hewitt software purchased.

Action Step	Responsible Parties	Possible Initiatives	Status Update
Managed Care Implementation (1) : (4) Introduce C&L Experts			Bill has met several times with Dion and Steve Beloff related to negotiating HealthAmerica contract. As part of these meetings, discussions of C&L's capabilities related to assisting in all facets of managed care contracting have been introduced.
Obtain consult engagement revolving around risk contracting Pursue actuarial work in risk environment			AHERF has agreed to utilize Steve Beloff to assist in the development of this core competency. See above. See above

Action Step	Responsible Parties	Possible Initiatives	Status Update
Assist in technology needs under managed care			See above
Improve Relationships			
Expand relationships with top level executives (1)			Ongoing [Roadblocks]
Develop plan to identify and enhance relationships with Audit Committee (3)	Buettner / Testoni / Blair / et. al.		Strong relationships with Thomas and Barnes. Audit Cmte composition is changing as result of mergers and internal operating decisions. Need to assess status with each member.

VIII. Personnel Assessments

Name	Position	Relationship Strength 1 = strong; 5 = poor	C&L Contact	Comments / Risks
Sherif Abdelhak	President & CEO	2	Buettner / Shively	Difficult to manage / no loyalty
Nancy Wynstra	General Counsel	3	Blair / Buettner	No loyalty - not a friend of the firm
David McConnell	EVP & CFO - AHERF	1	Buettner / Blair / Sheidy	Very good friend of firm - If left AHERF, raises issues for C&L
Joe Dionisio	AGH CFO	3	Kenney / Carver / Buettner	Difficult to manage. Not necessarily a friend.
Chuck Morrison	CFO - DV	3	Buettner / Staudt / Shively	Dislikes C&L Philadelphia from prior experiences. Currently building relationships with Bill & Amy.
Tony Sanzo	AGH - President	2.5	Buettner / Blair	Not a friend of firm.
Donald Kaye	Allegheny Univ Hosp.	2.5	Lattimer	Hurt by Phil Kamp exit.
Calvin Bland	SCHC	2.5	Shively	Former C&L employee / Glenn Shively has developed contact.
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Name	Position	Relationship Strength 1 = strong; 5 = poor	C&L Contact	Comments / Risks
Leonard Ross	Allegheny University	3	TBD	Strong dislike for acct. / difficult to manage
J. David Barnes	Audit Committee	2	Buettner	
Ralph Brenner	Audit Committee			
Anthony Cook	Audit Committee			
Douglas Danforth	Audit Committee			
Richard Daniel	Audit Committee			
Harry Edelman III	Audit Committee			
Ira Gumberg	Audit Committee			
Robert Hernandez	Audit Committee			
Graemer Hilton	Audit Committee	2	Buettner	Supporter of C&L over years
Thomas O'Brien	Audit Committee			
David Sculley	Audit Committee			
W.P. Snyder III	Audit Committee	2		Supporter of C&L over years
W. Bruce Thomas	Audit Committee	2	Buettner	
Robert McNair		2	Blair	
Diane Schrecengost	Director - Internal Audit	2	Buettner / Kirstein	Follows McConnell lead. Must manage carefully as she is outspoken.

Name	Position	Relationship Strength 1 = strong; 5 = poor	C&L Contact	Comments / Risks
Dan Cancelmi	Sr Dir. - Finance AHERF	2	Kirstein / Frazier / Buettner	Not a buyer to date, yet is a supporter.
Al Adamczak	Sr. Dir. - Finance AGH & AUMC	2	Kirstein / Frazier / Buettner	Friend of firm. Not a buyer.
Greg Snow	VP - Finc'l Services (Patient Acctg)	4	Buettner / Kaliszewski	Dislikes firm. Bad experiences to date. Hired D&T for consulting.
Dwight Kasperbauer	HR	3	Blair / Mitra	C&L is not vendor of choice.
Maria Randall	HR		Buettner / Blair / Mitra	
Joe Sharf	Dir - Reimbursement	2	Kirstein / Girol	Follows finance lead. Utilizes C&L for projects when given opportunity.
Joan Cattie	Sr. Dir - Research Acctg.	3	Frazier / TBD	Tough to manage. Need to focus on relationship with her and successor.
Jim Ebert	CIO - Pgh	3	Carver / Kenney	
Dan Walsh	CIO - DV	3	Carver / Kenney	
Kathleen Denis			TBD	
Barry Roth			TBD	
Mike Moyer			Kirstein	

Name	Position	Relationship Strength 1 = strong; 5 = poor	C&L Contact	Comments / Risks
Don Kline	Sr. Dir - AIHG	3	Buettner / Sheidy / Kirstein	Tried to use C&L for project.
Mike Martin	VP - Treasury	2	Kirstein / Frazier	
Sue Kirsch	Director - Corporate Taxation	2	Blair / Gross / Battle	

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EXHIBIT 4407

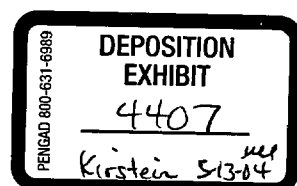
**Coopers
& Lybrand**

Corporate Finance Services

Coopers & Lybrand L.L.P.
a professional services firm

Financial Advisory Services

CL 039130



**THE GRADUATE HOSPITAL
MT. SINAI HOSPITAL
CITY AVENUE/PARKVIEW HOSPITALS
ZURBRUGG MEMORIAL HOSPITAL**

DUE DILIGENCE REPORT

December 13, 1996

CL 039131



Coopers & Lybrand L.L.P.
a professional services firm

2400 Eleven Penn Center
Philadelphia, Pennsylvania
19103-2962

telephone (215) 963-8000
facsimile (215) 963-8700

CONFIDENTIAL

December 13, 1996

Mr. David W. McConnell
Executive Vice President and CFO
SDN, Inc.
Fifth Avenue Place
120 Fifth Avenue, Suite 2900
Pittsburgh, PA 15222

Dear Mr. McConnell:

Pursuant to our engagement letter dated August 26, 1996 and the due diligence checklist attached thereto, we have analyzed certain financial, lease, contract and other data of Graduate Hospital, Mt. Sinai Hospital, Parkview/City Avenue Hospitals, Zurbrugg Memorial Hospital and Founders Health Care (collectively, "Graduate") and identified herein various significant items noted during our analysis. Our analysis was undertaken solely to assist you in your evaluation of the transaction with Graduate. The scope of our work included:

- Visiting various Graduate entities;
- Holding discussions with various key management executives of Graduate regarding financial, contract, lease, disbursement, and physician acquisition due diligence and valuation matters;
- Reading and analyzing audited financial statements for the prior three fiscal years of Graduate;
- Analyzing certain significant contracts for the sale, lease or acquisition of capital assets;
- Analyzing physician acquisition due diligence and valuation reports;
- Analyzing Graduate disbursement records for the period July 1, 1995 through June 30, 1996 for payments to certain officers and directors of Graduate; and
- Reading the working papers of Deloitte & Touche and Ernst & Young and interviewing certain of their personnel regarding the audit performed by these firms for the last three fiscal years of Graduate.

We believe you understand that the scope of our engagement and our procedures described above do not constitute an attest service as the term is defined by the American Institute of Certified

Mr. David W. McConnell

December 13, 1996

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Public Accountants ("AICPA"). Accordingly, we are unable to express any assurance on any of the financial statements or other data included in the accompanying report. We also make no representation as to the adequacy of our procedures for your purposes.

This report is solely for your information and the management of SDN and its advisors in connection with the proposed acquisition of Graduate and should not be referred to or distributed for any purposes to any other parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

After you and your colleagues have had an opportunity to review this report, we will be pleased to answer any questions.

Very truly yours,

Charles J. Lybrand C.C.P.

CL 039133

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I. SIGNIFICANT CAPITAL ASSET TRANSACTIONS**The Omega Sale/Leaseback Transaction**

In October 1993, Graduate Health System, Inc. ("GHS"), The Graduate Hospital and 17th and South Parking Corp. sold four properties to Omega Healthcare Investors, a real estate investment trust, for a total of \$29,725,000. Omega agreed to lease the properties back to the sellers. The following properties were involved in the sale/leaseback:

Entity	Property	Primary Use	Sale Price	Monthly Lease Payment
GHS	1740 South St.	Medical Office Bldg.	\$ 6,775,000	\$66,400
GHS	520 So. 19th St.	Medical Office Bldg.	1,275,000	12,500
Graduate Hospital	19th & Lombard St. (Pepper Pavilion)	Medical Office Bldg.	15,300,000	150,000
17th & S. Parking Corp.	1700 South Street	Parking Garage	6,375,000	62,500
(Conveyed to Hospital by Phila. Industrial Development Authority)				Indexed to CPI
			<u>\$29,725,000</u>	

Under the terms of the "operating lease," the initial lease term on all properties is 17 years. The GHS and 17th & South Parking Corp. leases have options to renew for eight years followed by an option to renew for an additional two years thereafter. The Pepper Pavilion lease has an option to renew for eight years followed by an option for an additional four years.

Under the "ground lease" ownership of all properties, except the Pepper Pavilion property, revert back to their respective entities after 27 years. The Pepper property reverts back to Graduate Hospital after 29 years.